



# **Legislative Audit Division**

State of Montana

Report to the Legislature

December 2002

## **Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2002**

### **Department of Environmental Quality**

This report contains one recommendation to the Petroleum Tank Release Compensation Board and five recommendations to the department. Issues addressed in the report include:

- ▶ Approval of ineligible applications and claims by the Petroleum Tank Release Compensation Board.
- ▶ Petroleum Tank Release Cleanup Fund cash management, including payment of claims when there is no money and untimely sale of investments resulting in \$7,000 lost General Fund interest earnings.
- ▶ Accounting issues indicating need for improved accounting oversight and transfer of over \$71,200 to the General Fund.
- ▶ Noncompliance with state and federal laws and regulations.

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

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Office of Budget and Program Planning  
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# LEGISLATIVE AUDIT DIVISION

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December 2002

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Environmental Quality for the two fiscal years ended June 30, 2002. Our report contains six recommendations concerning approval of ineligible applications and claims by the Petroleum Tank Release Compensation Board; Petroleum Tank Release Cleanup Fund cash management, including payment of claims when there is no money and untimely sale of investments resulting in \$7,000 lost General Fund interest earnings; accounting issues indicating need for improved accounting oversight; and noncompliance with state and federal laws and regulations.

We thank the department director and staff for their assistance and cooperation during the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2002**

## **Department of Environmental Quality**

Members of the audit staff involved in this audit were Pearl M. Allen, Chris G. Darragh, Emlyn Neuman-Javornik, Laura L. Norris, Sonia Powell, and Joyce Weber.

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## Appointed and Administrative Officials

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### Department of Environmental Quality

Jan Sensibaugh, Director

Tom Livers, Deputy Director

Ann Danzer, Centralized Services Division Administrator

John Arrigo, Enforcement Division Administrator

Steve Welch, Permitting and Compliance Division Administrator

Art Compton, Planning, Prevention and Assistance Division  
Administrator

Sandi Olsen, Remediation Division Administrator

### Board of Environmental Review

		<u>Term Expires</u>
Joe Russell, Chairperson	Kalispell	January 1, 2003
Susan Kirby Brooke	Bozeman	January 1, 2003
David Fishbaugh	Billings	January 1, 2005
Russell Hudson	Libby	January 1, 2005
Ward Shanahan	Helena	January 1, 2005
Garon Smith	Missoula	January 1, 2005
Kim Lacy	Glasgow	January 1, 2003

### Petroleum Tank Release Compensation Board

		<u>Term Expires</u>
Tim Hornbacher, Chairperson	Helena	June 30, 2003
Gary Basso	Billings	June 30, 2004
Greg Cross	Billings	June 30, 2004
Daniel Manson	Butte	June 30, 2005
Jo Murphy	Great Falls	June 30, 2004
Mary Ann Sharon	Dillon	June 30, 2003
Barry Johnston	Bigfork	June 30, 2005

For additional information concerning the Department of  
Environmental Quality, contact:

Lisa Peterson, Public Affairs Coordinator  
Department of Environmental Quality  
PO Box 200901  
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### Department of Environmental Quality

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2002. The department implemented four and partially implemented seven of the eleven prior audit recommendations. This current audit report contains six recommendations.

The first section of this report contains two recommendations regarding the Petroleum Tank Release Cleanup Fund. The first recommendation concerns Petroleum Tank Release Compensation Board approval of applications and claims for eligibility. The second recommendation concerns the department's monitoring of cash balances to prevent paying for claims when there is no money in the fund and lost interest to the General Fund.

The second section discusses various accounting issues and how accounting oversight controls could help improve the department's compliance with state law requiring financial activity be recorded in accordance with state accounting policy and generally accepted accounting principles.

The third section includes a recommendation related to compliance with a state law concerning junk vehicle disposal fees.

The fourth section includes two recommendations related to charging leave costs to federal programs in a uniform and equitable manner and filing required federal reports.

We issued a qualified opinion on the financial schedules contained in the report for each of the two years under audit. The opinion on page A-3 discusses federal revenue misstatements of \$4,106,213 and \$3,753,024. The reader should use caution when analyzing the presented financial information and the supporting data on the Statewide Accounting, Budgeting and Human Resources System.

### Recommendation #1

We recommend the Petroleum Tank Release Compensation Board approve applications and claims for eligibility in accordance with state law..... 9



## Report Summary

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Board Response: Concur. See page B-7.

### Recommendation #2

We recommend the department:

- A. Improve its cash monitoring and management procedures over the Petroleum Tank Release Cleanup Fund.
- B. Comply with section 75-11-307(5), MCA, by reimbursing approved claims only when the Petroleum Tank Release Cleanup Fund contains sufficient money to pay the claims. .... 10

Department Response: Concur. See page B-4.

### Recommendation #3

We recommend the department:

- A. Implement oversight procedures to facilitate compliance with state law and accounting policy by detecting and correcting accounting errors in a timely manner.
- B. Transfer the investment earnings of over \$71,200 on the cash bond held in the Special Revenue Fund to the General Fund. .... 16

Department Response: Concur. See page B-4.

### Recommendation #4

We recommend the department:

- A. Comply with state law requiring collection of a \$2 fee for vehicles submitted by a wrecking facility to the state's disposal program, in accordance with section 75-10-513(1), MCA.
- B. If necessary, seek legislation to amend the law. .... 16

Department Response: Concur. See page B-5.

<u>Recommendation #5</u>	We recommend the department charge its leave costs uniformly and equitably in accordance with federal regulations. ....	18
	<u>Department Response:</u> Concur. See page B-5.	
<u>Recommendation #6</u>	We recommend the department file Federal Cash Transactions Reports and Financial Status Reports as required by federal regulations.....	19
	<u>Department Response:</u> Concur. See page B-5.	

# Introduction

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## Introduction

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2002. The objectives of the audit were to:

1. Make recommendations for improvements in the department's management and internal accounting controls.
2. Determine department compliance with applicable state and federal laws and regulations.
3. Determine if the department's financial schedules are fairly presented for each of the two fiscal years ended June 30, 2002.
4. Determine the implementation status of prior audit recommendations.

This report contains one recommendation to the Petroleum Tank Release Compensation Board and five recommendations to the department. In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of Internal Service Fund type fees and fund equity balances at the department. The statute requires fees and charges for services, which are deposited into Internal Service Funds, be based upon commensurate costs. The department has one Internal Service Fund, which funds the Central Management Program and is administered by the Centralized Services Division. We reviewed the Internal Service Fund activity and determined the rates are commensurate with costs and the fund equity balance is reasonable.

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## Background

The 1995 Legislature created the department as part of a reorganization of the environmental and natural resources functions of state government. The enabling legislation, Chapter 418, Laws of

## Introduction

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1995, assigned functions related to permitting facilities, enforcement of environmental standards and remediation of environmental degradation to the department. In March 1996, the department initiated an internal reorganization along the functional lines of planning, permitting, enforcement, and remediation. Total authorized full-time equivalent employees (FTE) for the department was 413.49 for fiscal year 2001-02.

The Planning, Prevention and Assistance Division (100.04 FTE) develops air, water, waste management, and energy plans to protect Montana's resources. The division monitors environmental conditions, maintains data on the condition of Montana's environment, works with businesses and government units to adopt environmental practices, and provides technical and financial assistance to implement improved environmental facilities.

The department's Permitting and Compliance Division (163.70 FTE) administers the permitting and compliance activities related to various federal and state statutes, including air quality, water quality, solid waste, hazardous waste, junk vehicle, mining, mine reclamation, public water supply, and sanitation in subdivision laws. The division reviews and assesses all environmental permit applications; prepares appropriate environmental impact documents; and inspects facilities to determine compliance with permit terms and the underlying laws and regulations. The division is also responsible for financial assurance activities relative to some of the permitting programs.

The Enforcement Division (16.75 FTE) implements, coordinates, and tracks the department's enforcement activities. The department has enforcement authority for: emissions affecting air quality, handling and disposal of hazardous wastes, asbestos removal and disposal, coal mining, gravel pits, hard rock mining, construction of large powerlines/pipelines/electrical generation facilities, discharges of pollutants to surface or ground water, disposal of solid wastes, disposal of junk vehicles, subdivision development, community wastewater disposal, and public drinking water supplies.

The Remediation Division (82.50 FTE) is responsible for overseeing investigation and cleanup activities at state and federal Superfund sites; reclaiming abandoned mine lands; regulating, permitting, and licensing underground storage tanks; implementing corrective actions at sites with leaking underground storage tanks; administering the Petroleum Tank Release Cleanup Fund (reimbursing eligible owners for the costs of petroleum release cleanup) under the direction of the Petroleum Tank Release Compensation Board; and overseeing groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination. The financial activity of the Petroleum Tank Release Compensation Board is recorded in the Remediation Division program as a result of changes initiated by Chapter 259, Laws of 1999.

Activity of the Director's Office (which includes the department's personnel office and legal unit), the Board of Environmental Review (which is administratively attached to the department and funded primarily by the General Fund), and Centralized Services Division is reported as the Central Management Program (50.50 FTE) on the financial schedules. Responsibility for central budgeting, accounting, fiscal reporting, internal audit, procurement contracts, and information technology services rests with the Centralized Services Division. Most of these services are financed in an Internal Service Fund by allocation of costs to the other divisions in the department.



# Prior Audit Recommendations

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## Implementation Status Summary

The prior financial-compliance audit of the Department of Environmental Quality for the two fiscal years ended June 30, 2000, contained 11 recommendations. The department implemented four recommendations and partially implemented seven recommendations. Three of the partially implemented recommendations regarding financial controls, leave costs, and Federal Cash Transactions Reports are discussed in the findings and recommendations section of this report on pages 10, 17, and 18. The status of the four other partially implemented recommendations, which all addressed compliance with state law, is summarized below.

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## Public Water Supply System Fees

In the last audit report, we recommended the department work with the Board of Environmental Review to establish fees that are commensurate with costs for the review of plans and specifications for the public water supply systems as required by state law. The department began tracking these costs separately from other costs on the state's accounting system in fiscal year 2001-02. Department personnel indicated in October 2002 that, based on the accounting information gathered in fiscal year 2001-02, the department is working on administrative rule revisions to increase the fee.

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## Annual Asbestos Facility Project Permit Fees

We also recommended the department establish annual asbestos facility project permit fees based on actual costs as required by state law. The department started tracking these costs separately from other costs on the state's accounting system in fiscal year 2001-02. The department has also drafted legislation and plans to seek a sponsor in the 2003 legislative session for a bill requiring the fee to be commensurate with program costs.

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## Untimely Water and Wastewater Certificate Revocation Notices

We recommended the department establish procedures to mail intention-to-revoke notifications to water and wastewater operators in a timely manner as required by state law. The department has drafted administrative rule changes to suspend water and wastewater operator certificates on the first day after June 30 of a year if the certification program has not received the appropriate renewal fees or continuing education course credits, and to require earlier reporting of all continuing education course credits.

## **Prior Audit Recommendations**

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### **Conflict in State Law**

We recommended the department seek legislation to amend section 75-3-607, MCA, to allow federal radon moneys to be deposited in the Federal Special Revenue Fund consistent with section 17-2-102, MCA. The department has drafted legislation and plans to seek a sponsor in the 2003 legislative session for a bill amending section 75-3-607, MCA, to allow federal radon monies to be deposited in the Federal Special Revenue Fund consistent with 17-2-102, MCA.



# Findings and Recommendations

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## **Petroleum Tank Release Cleanup Fund**

Section 75-11-313, MCA, created a Petroleum Tank Release Cleanup Fund in the State Special Revenue Fund. The fund's primary source of revenue is the  $\frac{3}{4}$  of one-cent petroleum storage tank cleanup fee collected by the Montana Department of Transportation on each gallon of gasoline, aviation gasoline, special fuel, heating oil, and gasohol distributed.

The purpose of the fund is to reimburse owners and operators for eligible costs incurred to clean up a release from a petroleum storage tank. Costs incurred must be approved by the Petroleum Tank Release Compensation Board (board) created in section 2-15-2108, MCA, to be eligible for reimbursement. The board consists of seven members appointed by the governor. The fund is statutorily appropriated for the above purpose and for repaying loans made to the board by the Board of Investments to cover temporary cash shortfalls. The fund may also be used to pay board and department expenses associated with administration of the fund pursuant to a legislative appropriation.

When a release is reported, department personnel review an owner's or operator's application for eligibility and make a recommendation to the board as to the release's eligibility for coverage by the fund, which the board either approves or disapproves. Department personnel review the claims submitted for cleaning up the release for eligibility and submit the claims to the board for approval. For claims less than \$25,000, the department pays the eligible claim costs and the board subsequently ratifies the payments. For claims of \$25,000 or more, the board must approve each claim's eligible costs prior to payment. If a site is eligible, 50 percent of the first \$35,000 in costs and 100 percent of the additional costs up to a maximum of \$1,000,000 for most petroleum facilities will be paid by the fund.

During our audit, we noted compliance issues related to the Petroleum Tank Release Cleanup Fund, which are discussed in the following two report sections.

## Findings and Recommendations

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### **Ineligible Applications and Claims Approved**

Section 75-11-318(1), MCA, states, “The board shall administer the petroleum tank release cleanup fund in accordance with the provisions of this part, including the payment of reimbursement to owners and operators.” Section 75-11-318(2), MCA, also states “The board shall determine whether to approve reimbursement of eligible costs under the provisions of 75-11-309(2) . . .” Section 75-11-309(2), MCA, requires the board, before approving a reimbursement, to affirmatively determine that: (1) the expenses for which reimbursement is claimed are eligible costs; and were actually, necessarily, and reasonably incurred for the preparation or implementation of a corrective action plan approved by the department or for payments to a third party for bodily injury or property damage; and (2) the owner or operator is eligible for reimbursement under section 75-11-308, MCA, and has complied with this section and any rules adopted pursuant to this section. The board has no authority in state law to make exceptions to these requirements. We found the board approved reimbursement of costs that were not eligible under section 75-11-309(2), MCA, and determined owners or operators were eligible for reimbursement although they had not complied with the requirements of section 75-11-308, MCA.

During our review of board minutes from its July 10, 2000, meeting through its May 20, 2002, meeting, we observed seven instances where the board overturned department staff recommendations of ineligibility. One instance was for claims totaling \$74,796 for an eligible site and the other six instances were for eligibility applications. We reviewed department files for the claims in question at the eligible site and for two of the six eligibility applications. We found the claims for the eligible site were for work not contained in the approved corrective action plan, so were not eligible costs under section 75-11-309(2), MCA. One of the two application files we reviewed should not have been eligible because the department was not notified within 24 hours, as required by state law and rules. The other application we reviewed should not have been eligible because the operator was not in compliance with five requirements of the Uniform Fire Code that the board has determined

## Findings and Recommendations

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are applicable state rules, as required by section 75-11-308(1)(e). The department had paid \$25,354, as of September 18, 2002, on these two applications.

### **Recommendation #1**

**We recommend the Petroleum Tank Release Compensation Board approve applications and claims for eligibility in accordance with state law.**

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### **Negative Cash Balances**

Section 75-11-307(5), MCA, states, “If the fund does not contain sufficient money to pay approved claims for eligible costs, a reimbursement may not be made and the fund and the board are not liable for making any reimbursement for the costs at that time. When the fund contains sufficient money, eligible costs must be reimbursed subsequently in the order in which they were approved by the board.” The fund ran out of money on April 2, 2002. The department made 134 claim payments totaling \$732,034 before storage tank cleanup fee collections brought cash in the fund to a positive level on May 9, 2002. The fund ran out of money again on May 16, 2002 and remained out of money until the department obtained a \$500,000 inter-entity loan on May 30, 2002.

Prior to April 2002, the department would let the cash balance in the fund go negative, rather than selling the fund’s short-term investments to keep the cash balance positive. On three occasions in fiscal year 2001-02, the department purchased short-term investments, which caused the cash balance to go negative. In effect, the department was borrowing cash from other funds to pay bills while earning interest on short-term investments. Because the state’s General Fund earns interest on idle cash in the treasury, we estimate the General Fund lost approximately \$7,000 in interest earnings in fiscal year 2000-01 and 2001-02 as a result of the department’s untimely conversion of short-term investments to cash.

Department personnel attributed these concerns to a need to improve cash monitoring and management procedures in the Centralized Services Division (CSD). There was turnover in the CSD position

## Findings and Recommendations

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responsible for monitoring the fund's cash and short-term investment balances. The employee in this position when the fund ran out of money in April 2002 said he monitored and managed the cash and investment balances based on the expectation that claims paid from the fund would be close to the \$500,000 monthly average. After the fund went negative, he found the claims paid from the fund averaged \$700,000 per month in March and April 2002. To prevent similar problems in the future, the employee said he worked with Remediation Division employees to get daily reports of claims payments and began monitoring short-term investment balances for each fund for which he was responsible.

### **Recommendation #2**

**We recommend the department:**

- A. Improve its cash monitoring and management procedures over the Petroleum Tank Release Cleanup Fund.**
- B. Comply with section 75-11-307(5), MCA, by reimbursing approved claims only when the Petroleum Tank Release Cleanup Fund contains sufficient money to pay the claims.**

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## Accounting Issues

Section 7-6-609, MCA, states, "It is the policy of the state of Montana that all governmental accounting systems be established and maintained in accordance with generally accepted accounting principles that are nationally recognized as set forth by the governmental accounting standards board or its generally recognized successor." State law also requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles. By law, the Department of Administration is responsible for establishing state accounting policy and prescribing and maintaining a uniform accounting system in accordance with generally accepted accounting principles (GAAP).

## Findings and Recommendations

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In our prior audit report, which was issued in March 2001, we recommended the department implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations. The department has implemented written policies and procedures, established regular meetings between program financial staff and centralized accounting and budgeting staff, provided training, created desk manuals to document the detailed procedures for each position, and has been reviewing and changing its business practices.

Although we saw improvement in the department's accounting, the following report sections discuss instances where the department could improve compliance with state accounting policy and GAAP, thereby improving the overall reliability and usefulness of the financial information contained in the Statewide Accounting, Budgeting and Human Resources System (SABHRS). The total amount of the Special Revenue Fund errors discussed in the following report sections is summarized below.

<u>Account Type</u>	<u>Fiscal Year</u>	
	<u>2000-01</u>	<u>2001-02</u>
Assets	\$1,049,655	\$1,153,666
Liabilities	7,555,868	3,266,205
Revenues	5,606,213	3,834,521
Expenditures	900,000	900,000
Ending Fund Balance	6,506,213	3,053,177

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### Claims Liability

The department did not record a liability for outstanding claims against the Petroleum Tank Release Cleanup Fund at June 30, 2001, as had been its practice in prior years. The department estimated the claims outstanding were approximately \$900,000 at fiscal year end. Centralized Services Division (CSD) management was not aware the liability had not been recorded, although Remediation Division fiscal personnel had discussed the situation with a CSD Budget Analyst when they realized accruing the liability would cause fund balance to be negative at fiscal year-end 2000-01. As a result, expenditures were also understated in fiscal year 2000-01 and overstated in fiscal year 2001-02 by \$900,000 in the Special Revenue Fund.

## Findings and Recommendations

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### Revenue Recognition

We noted the revenue recognition issues discussed in the following three sections and the Accounts Receivable section.

### Federal Revenue Accrual and Deferral

Under state accounting policy, federal assistance revenue in the Federal Special Revenue Fund should usually equal expenditures, except for encumbrances that are treated as expenditures on the state's accounting system. Throughout the year, the department records revenue as it draws federal funds. At fiscal year-end, the department adjusts the revenue amount up (accrual) or down (deferral) to match expenditures.

Department personnel adjusted federal revenue incorrectly for 29 of 39 accounts at fiscal year-end 2001, because it used a SABHRS report that did not contain all the needed information. At fiscal year-end 2002, department personnel adjusted incorrectly using current, instead of prior year, revenue. They also adjusted 17 of 44 accounts incorrectly, primarily because they did not analyze all Federal Special Revenue Funds.

The following over (under) statements occurred because of these errors.

	Fiscal Year	
	2000-01	2001-02
Beginning Fund Balance		\$ (4,106,213)
Due From Federal Gov't	\$ 260,864	(366,370)
Deferred Revenue	4,367,077	(13,181)
Federal Revenue	(4,106,213)	3,753,024
Ending Fund Balance	(4,106,213)	(353,189)

### Unavailable Resources

During fiscal year 2000-01, the department received \$1.5 million that can be used for reclamation of a mine only after all other resources have been exhausted. The money must be returned to its source if not needed for reclaiming the mine. The department recorded this receipt as revenue. Since the money is not available for spending, it should have been recorded as deferred revenue. As a result, revenue is overstated for fiscal year 2000-01, deferred revenue is understated, and fund balance is overstated at June 30, 2001 and 2002 by \$1.5 million in the State Special Revenue Fund.

## Findings and Recommendations

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### **Surety Bond Recovery Revenue Accrual**

The department entered into a settlement agreement with two surety companies to reclaim portions of a mine site in November 1998. Program personnel are responsible for approving bills from the contractor, and forwarding them to Centralized Services Division (CSD) with a summary sheet. CSD bills the surety, which is required to pay the department within ten days, then pays the contractor. During June and August 2002, three bills were sent to CSD without the required summary sheet. Consequently, CSD did not bill the surety until we brought the issue to their attention in September 2002. The department also did not accrue revenue to match a \$30,000 accrual of the contract expenditure. As a result, receivables and fund balance at June 30, 2002 and revenue for fiscal year 2001-02 are understated in the State Special Revenue Fund by \$81,497.

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### **Accounts Receivable**

The Remediation Division (division) uses the resources of the state Environmental Quality Protection and federal Leaking Underground Storage Tank Trust Funds to finance clean up of releases of hazardous substances. The division bills the liable parties for each quarter's clean up costs and sends a copy of the bills to the CSD. Based on these bills, CSD personnel record a receivable and revenue for the amount billed.

### **Leaking Underground Storage Tank Fund**

The receivable balance recorded in the Leaking Underground Storage Tank Fund increased from \$727,728 at June 30, 2000 to \$1,047,225 at June 30, 2001. It remained at \$1,047,225 at June 30, 2002. The fund's billings for the fourth quarter of fiscal year 2000-01 (\$76,143) and the first quarter of fiscal year 2001-02 (\$73,692) were not recorded by September 30, 2002, because CSD did not get copies of the bills. In September 2002, the department increased the receivable by \$157,710 when it recorded late billings made in August 2002 for the second through fourth quarters of fiscal year 2001-02. The department collected no money on these receivables during the two years ending June 30, 2002.

Under GAAP, revenue should be recognized when available to pay liabilities of the current period. Because there were no collections

## Findings and Recommendations

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on these receivables during the two-year audit period, the collectibility of these receivables and availability of the related revenue is questionable. The department should reduce fund balance for revenue incorrectly recognized in previous years, increase Allowance for Uncollectible Accounts for the amount of uncollectible receivables, and increase Deferred Revenue for the collectible portion of receivables which are not available to pay current liabilities. To improve collectibility, the department should bill liable parties in a timely manner.

As a result of the above untimely billings and revenue recognition errors, the department overstated fund balance by \$1,047,225; understated receivables by \$306,516; and understated Allowance for Uncollectible Accounts and Deferred Revenue by a total of \$1,353,741 at June 30, 2002 in the Special Revenue Fund.

### **Environmental Quality Protection Fund**

The department billed liable parties for costs incurred by the Environmental Quality Protection Fund during fiscal year 2000-01 in fiscal year 2001-02 and began billing for the third and fourth quarters of fiscal year 2001-02 in September 2002. Department policy requires these costs be billed quarterly. The department did not estimate and record receivables and deferred revenue for billable costs incurred, but not yet billed at June 30, 2001 or 2002. The amount of unrecorded receivables in this fund at June 30, 2001 was \$268,791. The unrecorded receivables in this fund at June 30, 2002 was at least \$399,283.

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### **Property Held in Trust**

The department accepts cash, certificates of deposit, letters of credit, surety bonds, and property bonds as security for reclamation under the Hard Rock, Open Cut, and Coal mining programs. The department records accountability for the cash bonds and certificates of deposit on the accounting records as cash or property held in trust offset by accountability for property held in trust.

In May 1999, a surety company issued a notice of cancellation of a bond. In June 1999, the department submitted a written demand to the surety for forfeiture of the \$520,000 bond and filed an action in



## Findings and Recommendations

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district court. The surety sent the department \$520,000 in cash in June 1999 to replace the bond and settle the action. The department placed this cash in an interest bearing Special Revenue Fund prior to fiscal year-end 1998-99. In July 2001, the department signed an agreement allowing the surety to replace the cash with a letter of credit.

The cash bond should have been recorded in the Agency Fund when received in June 1999, consistent with other bonds held by the department in a fiduciary capacity. Investment earnings may be earned on cash bonds held in an Agency Fund if the proper authority is provided to the Board of Investments. In the case described above, the department used bond forfeiture law to justify investment to the Board of Investments, although the situation was a conversion from one bond to another. Had the bond been properly recorded in the Agency Fund, the investment earnings on the cash would have gone to the General Fund.

As a result, Cash and Property Held in Trust were overstated in the State Special Revenue Fund and understated in the Agency Fund by \$520,000 since June 30, 1999, and investment earnings are overstated in the State Special Revenue Fund and understated in the General Fund by a total of \$71,266 between June 1999 and June 30, 2002.

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### Accounting Oversight Needed

The errors described in the previous sections indicate the department can improve its controls over recording financial activity in accordance with state law and policy. We detected many of the errors by reviewing reports prepared from the department's accounting records for amounts that appeared unusual or unreasonable. The department could implement a similar monitoring review to detect and correct errors. Department management should also ensure that transaction review and approval and other control procedures are performed in time for corrections to be made prior to the end of the fiscal year. In addition, when a new activity occurs, the people responsible for accounting for the activity should obtain a complete understanding of the substance of the transactions from the

## Findings and Recommendations

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appropriate program personnel before deciding how the activity should be recorded.

### **Recommendation #3**

**We recommend the department:**

- A. Implement oversight procedures to facilitate compliance with state law and accounting policy by detecting and correcting accounting errors in a timely manner.**
- B. Transfer the investment earnings of over \$71,200 on the cash bond held in the Special Revenue Fund to the General Fund.**

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### **Junk Vehicle Disposal Fee**

Section 75-10-513(1), MCA, states “When a motor vehicle wrecking facility submits a junk vehicle to the disposal program, it shall pay a disposal fee of \$2 for each vehicle submitted, and the vehicle is then the property of the state.” Department personnel told us “The \$2 disposal fee has not been collected by the Department from motor vehicle wrecking facilities. A Program Policy was adopted September 15, 1976, that states that the \$2 fee will only be collected if the value (scrap metal) of the vehicle is less than \$2. The value has never dropped below \$2.” Department personnel said this policy was implemented because management determined it was not cost effective to collect the \$2 fee. Although the program once received 80 vehicles, department personnel estimate that the program receives an average of 6 to 8 vehicles per year from wrecking facilities.

### **Recommendation #4**

**We recommend the department:**

- A. Comply with state law requiring collection of a \$2 fee for vehicles submitted by a wrecking facility to the state’s disposal program, in accordance with section 75-10-513(1), MCA.**
- B. If necessary, seek legislation to amend the law.**

## Findings and Recommendations

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### Federal Compliance

We noted the following areas where the department could improve compliance with federal requirements.

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### Inconsistent Leave Pool Rates

The purpose of a leave pool is to ensure the leave costs earned by employees working on a project are charged to the project. Leave pools are designed to charge programs or projects for leave costs as the leave is earned, and to provide cash to pay the employee when leave is used.

The department maintains leave pools with two different rates used to fund leave taken by certain employees who accumulate leave while working in state and federal programs. The two leave pools with different rates were moved to the department from the former Department of State Lands (DSL) and the Department of Natural Resources and Conservation (DNRC) when state programs were reorganized to form DEQ. Leave for the majority of department employees is not covered by either of the two leave pools.

For the leave pool costs to be allowed for federal programs, the costs must be uniformly applied to all related activities of the governmental unit. Since the leave pool costs are not consistently applied to all employee leave, the costs are unallowable under federal regulations. Therefore we question leave pool charges amounting to \$46,652 and \$56,213 in fiscal years 2000-01 and 2001-02, respectively.

This issue was discussed in the previous two audit reports and the department concurred with the recommendation both times. In response to the previous audit report, the department has been working with the federal government to develop a department-wide leave pool rate to put in place for fiscal year 2002-03. Progress has been hampered by turnover in the position assigned this task.

## Findings and Recommendations

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### **Recommendation #5**

**We recommend the department charge its leave costs uniformly and equitably in accordance with federal regulations.**

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#### **Submitting Federal Reports**

We found the department has not submitted required federal reports, as discussed below. Department personnel cited turnover, other priorities, and, in the case of Non-Point Source Grants, how the accounting records are set up as reasons for these reporting delays.

#### **Federal Cash Transactions Reports**

In our prior audit, we reported that the department did not submit Federal Cash Transactions Reports for any of its federal programs, including the Water Pollution Control and Drinking Water State Revolving Funds Programs, as required by federal regulations. Federal regulations require grantees to file an SF-272 Federal Cash Transactions Report, unless the terms of the award exempt the grantee from the requirement. The report must be submitted within 15 days after the end of each calendar quarter.

Department personnel said they submitted Federal Cash Transactions Reports to the U.S. Department of Energy in response to our prior recommendation. They also said the U.S. Department of Interior does not require the reports due to the electronic cash draw system that it uses. The department initially requested an exemption from this reporting requirement from the U.S. Environmental Protection Agency (EPA) in November 2001. As of September 26, 2002, the department had not received approval or disapproval of its exemption request from the EPA. The department did not submit any Federal Cash Transactions Reports to the EPA during the audit period.

#### **Federal Financial Status Reports**

As of September 25, 2002, the department had not submitted the annual SF-269 Federal Financial Status Reports covering fiscal year 2000-01 for its Water Pollution Control and Drinking Water State Revolving Funds Programs, Performance Partnership Grants, and other smaller grants. It also had not submitted the annual Federal

## Findings and Recommendations

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Financial Status Reports covering fiscal years 1999-00 and 2000-01 for the Non-Point Source Grants. Federal regulations require annual reports to be submitted no later than 90 calendar days after the end of the reporting period, unless extensions of the reporting due dates are approved by the federal grantor agency.

The last approved extension for the Performance Partnership Grants was February 28, 2002. The last approved extension for the State Revolving Fund Programs and Non-Point Source Grants was March 31, 2002. Department personnel planned to submit both the fiscal year 2000-01 and 2001-02 Financial Status Reports for the Performance Partnership Grants and the State Revolving Funds Programs by no later than November 1, 2002.

### **Recommendation #6**

**We recommend the department file Federal Cash Transactions Reports and Financial Status Reports as required by federal regulations.**

# **Independent Auditor's Report & Department Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Environmental Quality for each of the fiscal years ended June 30, 2001 and 2002. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

The department accrued and deferred federal revenue improperly in fiscal years 2000-01 and 2001-02. As a result, Budgeted Federal Revenue in the Special Revenue Fund is understated by \$4,106,213 in fiscal year 2000-01 and overstated by \$3,753,024 in fiscal year 2001-02 on the Schedules of Changes in Fund Balances & Property Held in Trust and on the Schedules of Total Revenues & Transfers-In. Also, Fund Balance in the Special Revenue Fund is understated by \$4,106,213 at June 30, 2001 and July 1, 2001 and by \$353,189 at June 30, 2002.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances & property held in trust of the Department of Environmental Quality for each of the fiscal years ended June 30, 2001 and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

September 27, 2002





DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>
FUND BALANCE: July 1, 2001	\$ (619,096)	\$ 109,541,326	\$ 187,314	\$ 370,527	\$ 0
PROPERTY HELD IN TRUST: July 1, 2001					\$ 3,068,077
<b>ADDITIONS</b>					
Budgeted Revenues & Transfers-In	78,633	37,476,953		3,036,269	
NonBudgeted Revenues & Transfers-In	397,986	59,883,920	970,754	433	
Prior Year Revenues & Transfers-In Adjustments	4,718	538,824	15,129	169,055	
Direct Entries to Fund Balance	3,109,277	11,160,877		18,699	
Additions to Property Held in Trust					12,604,120
Total Additions	<u>3,590,614</u>	<u>109,060,574</u>	<u>985,883</u>	<u>3,224,456</u>	<u>12,604,120</u>
<b>REDUCTIONS</b>					
Budgeted Expenditures & Transfers-Out	3,701,615	49,109,159		3,071,965	
NonBudgeted Expenditures & Transfers-Out		28,162,701	921,060	(15,549)	
Prior Year Expenditures & Transfers-Out Adjustments	2,663	68,740	77,745	29,103	
Reductions in Property Held in Trust					279,600
Total Reductions	<u>3,704,278</u>	<u>77,340,600</u>	<u>998,805</u>	<u>3,085,519</u>	<u>279,600</u>
FUND BALANCE: June 30, 2002	<u>\$ (732,760)</u>	<u>\$ 141,261,300</u>	<u>\$ 174,392</u>	<u>\$ 509,464</u>	<u>\$ 0</u>
PROPERTY HELD IN TRUST: June 30, 2002					<u>\$ 15,392,597</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is presented in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>
FUND BALANCE: July 1, 2000	\$ (911,366)	\$ 80,708,314	\$ 56,455	\$ 422,237	\$ 0
PROPERTY HELD IN TRUST: July 1, 2000					\$ 2,384,060
<b>ADDITIONS</b>					
Budgeted Revenues & Transfers-In	77,719	22,327,661	90,044	2,467,680	
NonBudgeted Revenues & Transfers-In	200,415	61,829,467	933,682	5,418	
Prior Year Revenues & Transfers-In Adjustments	18,859	(874,564)		9,047	
Direct Entries to Fund Balance	3,486,211	8,267,243		1,072	
Additions To Property Held in Trust					943,902
Total Additions	<u>3,783,204</u>	<u>91,549,807</u>	<u>1,023,726</u>	<u>2,483,217</u>	<u>943,902</u>
<b>REDUCTIONS</b>					
Budgeted Expenditures & Transfers-Out	3,544,358	43,320,610		2,496,838	
NonBudgeted Expenditures & Transfers-Out		19,564,271	892,867	(5,175)	
Prior Year Expenditures & Transfers-Out Adjustments	(53,424)	(168,086)		43,264	
Reductions in Property Held in Trust					259,885
Total Reductions	<u>3,490,934</u>	<u>62,716,795</u>	<u>892,867</u>	<u>2,534,927</u>	<u>259,885</u>
FUND BALANCE: June 30, 2001	\$ (619,096)	\$ 109,541,326	\$ 187,314	\$ 370,527	\$ 0
PROPERTY HELD IN TRUST: June 30, 2001					\$ 3,068,077

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is presented in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private- Purpose Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>						
Licenses and Permits	\$ 500	\$ 5,701,472				\$ 5,701,972
Taxes	807	1,495				2,302
Charges for Services	83,450	471,824	\$ 919,495	\$ 1,913,545		3,388,314
Investment Earnings		10,485,694	51,259			10,536,953
Fines and Forfeits	395,944	34,609,121				35,005,065
Sale of Documents, Merchandise and Property		7,089				7,089
Miscellaneous	636	1,131,491		433		1,132,560
Grants, Contracts, Donations and Abandonments		600,664				600,664
Other Financing Sources		1,544,409	15,129			1,559,538
Federal		43,346,438				43,346,438
Federal Indirect Cost Recoveries				1,291,779		1,291,779
Total Revenues & Transfers-In	481,337	97,899,697	985,883	3,205,757	\$ 0	102,572,674
Less: Nonbudgeted Revenues & Transfers-In	397,986	59,883,920	970,754	433		61,253,093
Prior Year Revenues & Transfers-In Adjustments	4,718	538,824	15,129	169,055		727,726
Actual Budgeted Revenues & Transfers-In	78,633	37,476,953	0	3,036,269	0	40,591,855
Estimated Revenues & Transfers-In	80,972	76,116,366	0	3,209,156	200	79,406,694
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (2,339)	\$ (38,639,413)	\$ 0	\$ (172,887)	\$ (200)	\$ (38,814,839)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>						
Licenses and Permits	\$ 300	\$ (1,803,509)				\$ (1,803,209)
Taxes		(835,000)				(835,000)
Charges for Services	(2,639)	(942,253)		\$ (80,950)		(1,025,842)
Investment Earnings		(4,039,874)			\$ (200)	(4,040,074)
Fines and Forfeits		(18,920,705)				(18,920,705)
Sale of Documents, Merchandise and Property		(1,492)				(1,492)
Miscellaneous		(1,481,880)				(1,481,880)
Grants, Contracts, Donations and Abandonments		(1,056,809)				(1,056,809)
Federal		(9,557,891)				(9,557,891)
Federal Indirect Cost Recoveries			\$ (91,937)			(91,937)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (2,339)	\$ (38,639,413)	\$ 0	\$ (172,887)	\$ (200)	\$ (38,814,839)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is presented in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Debt Service Fund	Internal Service Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>					
Licenses and Permits	\$ 100	\$ 5,946,907			\$ 5,947,007
Taxes	536			\$ 2,855	3,391
Charges for Services	97,167	1,111,750	\$ 877,410	1,434,811	3,521,138
Investment Earnings		11,387,176	56,272		11,443,448
Fines and Forfeits	198,607	39,808,551			40,007,158
Sale of Documents, Merchandise and Property		7,441			7,441
Miscellaneous	567	4,808		2,564	7,939
Grants, Contracts, Donations and Abandonments	16	409,292			409,308
Other Financing Sources		1,265,000	90,044		1,355,044
Federal		23,341,639			23,341,639
Federal Indirect Cost Recoveries				1,041,916	1,041,916
Total Revenues & Transfers-In	<u>296,993</u>	<u>83,282,564</u>	<u>1,023,726</u>	<u>2,482,146</u>	<u>87,085,429</u>
Less: Nonbudgeted Revenues & Transfers-In	200,415	61,829,467	933,682	5,419	62,968,983
Prior Year Revenues & Transfers-In Adjustments	18,859	(874,564)		9,047	(846,658)
Actual Budgeted Revenues & Transfers-In	<u>77,719</u>	<u>22,327,661</u>	<u>90,044</u>	<u>2,467,680</u>	<u>24,963,104</u>
Estimated Revenues & Transfers-In	434,202	56,476,865	0	2,614,512	59,525,579
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (356,483)</u>	<u>\$ (34,149,204)</u>	<u>\$ 90,044</u>	<u>\$ (146,832)</u>	<u>\$ (34,562,475)</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>					
Licenses and Permits	\$ 100	\$ (735,551)			\$ (735,451)
Taxes		(835,000)			(835,000)
Charges for Services	(10,083)	(299,020)		\$ (189,151)	(498,254)
Investment Earnings		629,776			629,776
Fines and Forfeits	(346,500)	(45,144)			(391,644)
Sale of Documents, Merchandise and Property		(919)			(919)
Miscellaneous		(507,741)			(507,741)
Grants, Contracts, Donations and Abandonments		(361,651)			(361,651)
Other Financing Sources			\$ 90,044		90,044
Federal		(31,993,954)			(31,993,954)
Federal Indirect Cost Recoveries				42,319	42,319
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (356,483)</u>	<u>\$ (34,149,204)</u>	<u>\$ 90,044</u>	<u>\$ (146,832)</u>	<u>\$ (34,562,475)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is presented in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT	PROGRAM (SUB- CLASS) NOT SPECIFIED	CENTRAL MANAGEMENT PROGRAM	ENFORCEMENT DIVISION	PERMITTING & COMPLIANCE DIVISION	PLAN.PREVENT. & ASSIST.DIV.	R06	REMEDIATION DIVISION	Total
Personal Services								
Salaries		\$ 1,897,353	\$ 483,398	\$ 5,006,074	\$ 2,971,730		\$ 2,434,608	\$ 12,793,163
Other Compensation		100						100
Employee Benefits		456,879	123,095	1,272,800	745,845		627,203	3,225,822
Personal Services-Other	\$ 23,442					\$ 16,902		40,344
Total	<u>23,442</u>	<u>2,354,332</u>	<u>606,493</u>	<u>6,278,874</u>	<u>3,717,575</u>	<u>16,902</u>	<u>3,061,811</u>	<u>16,059,429</u>
Operating Expenses								
Other Services		656,287	50,945	15,216,233	4,485,163		11,261,020	31,669,648
Supplies & Materials		238,799	22,540	353,104	298,189		184,734	1,097,366
Communications		57,249	13,138	196,068	101,093		101,707	469,255
Travel		23,306	14,544	216,979	195,845		69,938	520,612
Rent		71,817	29,357	356,105	202,178		264,277	923,734
Utilities				833	2,834		386	4,053
Repair & Maintenance		8,101	2,522	41,551	25,293		7,392	84,859
Other Expenses		168,046	138,183	1,645,795	938,903		774,525	3,665,452
Total		<u>1,223,605</u>	<u>271,229</u>	<u>18,026,668</u>	<u>6,249,498</u>		<u>12,663,979</u>	<u>38,434,979</u>
Equipment & Intangible Assets								
Equipment		6,941		49,844	49,575		30,000	136,360
Total		<u>6,941</u>		<u>49,844</u>	<u>49,575</u>		<u>30,000</u>	<u>136,360</u>
Grants								
From State Sources				1,025,627				1,025,627
Total				<u>1,025,627</u>				<u>1,025,627</u>
Benefits & Claims								
From State Sources							7,350,310	7,350,310
Total							<u>7,350,310</u>	<u>7,350,310</u>
Transfers								
Accounting Entity Transfers					20,965,813	81,961		21,047,774
Total					<u>20,965,813</u>	<u>81,961</u>		<u>21,047,774</u>
Debt Service								
Bonds					921,060			921,060
Loans							153,663	153,663
Total					<u>921,060</u>		<u>153,663</u>	<u>1,074,723</u>
Total Expenditures & Transfers-Out	\$ <u>23,442</u>	\$ <u>3,584,878</u>	\$ <u>877,722</u>	\$ <u>25,381,013</u>	\$ <u>31,903,521</u>	\$ <u>98,863</u>	\$ <u>23,259,763</u>	\$ <u>85,129,202</u>
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund		\$ 191,307	\$ 468,438	\$ 1,230,637	\$ 1,813,896			\$ 3,704,278
Special Revenue Fund		348,396	409,284	24,150,376	29,090,820	\$ 81,961	\$ 23,259,763	77,340,600
Debt Service Fund					998,805			998,805
Internal Service Fund	\$ 23,442	3,045,175				16,902		3,085,519
Total Expenditures & Transfers-Out	<u>23,442</u>	<u>3,584,878</u>	<u>877,722</u>	<u>25,381,013</u>	<u>31,903,521</u>	<u>98,863</u>	<u>23,259,763</u>	<u>85,129,202</u>
Less: Nonbudgeted Expenditures & Transfers-Out		(32,451)		754,219	21,809,128	98,863	6,438,453	29,068,212
Prior Year Expenditures & Transfers-Out Adjustments	<u>23,442</u>	<u>(21,772)</u>	<u>7,580</u>	<u>(30,068)</u>	<u>126,611</u>		<u>72,460</u>	<u>178,253</u>
Actual Budgeted Expenditures & Transfers-Out	0	3,639,101	870,142	24,656,862	9,967,782	0	16,748,850	55,882,737
Budget Authority	0	4,443,563	959,989	54,108,045	18,577,234	0	22,776,393	100,865,224
Unspent Budget Authority	\$ <u>0</u>	\$ <u>804,462</u>	\$ <u>89,847</u>	\$ <u>29,451,183</u>	\$ <u>8,609,452</u>	\$ <u>0</u>	\$ <u>6,027,543</u>	\$ <u>44,982,487</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund		\$ 327,236	\$ 36,127	\$ 90,365	\$ 340,359			\$ 794,087
Special Revenue Fund		92,561	53,720	29,360,818	8,269,093		\$ 6,027,543	43,803,735
Internal Service Fund	\$ 384,665					\$		384,665
Unspent Budget Authority	\$ <u>0</u>	\$ <u>804,462</u>	\$ <u>89,847</u>	\$ <u>29,451,183</u>	\$ <u>8,609,452</u>	\$ <u>0</u>	\$ <u>6,027,543</u>	\$ <u>44,982,487</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is presented in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT	PROGRAM (SUB- CLASS) NOT SPECIFIED	CENTRAL MANAGEMENT PROGRAM	ENFORCEMENT DIVISION	PERMITTING & COMPLIANCE DIVISION	PLAN.PREVENT. & ASSIST.DIV.	REMEDATION DIVISION	Total
Personal Services							
Salaries		\$ 1,417,390	\$ 493,391	\$ 5,065,588	\$ 2,882,570	\$ 2,302,972	\$ 12,161,911
Other Compensation		2,000					2,000
Employee Benefits		336,347	124,771	1,274,187	723,367	594,366	3,053,038
Total	\$ 0	1,755,737	618,162	6,339,775	3,605,937	2,897,338	15,216,949
Operating Expenses							
Other Services	238,642	676,504	94,838	14,008,138	3,447,592	8,245,903	26,711,617
Supplies & Materials	423	85,912	22,500	366,721	214,169	163,897	853,622
Communications	539	64,024	17,640	228,597	119,564	137,532	567,896
Travel	267	17,329	18,205	180,977	247,718	92,386	556,882
Rent	496	66,721	35,910	331,182	197,444	245,895	877,648
Utilities			12	2,601	10,300	344	13,257
Repair & Maintenance	35	8,185	3,118	37,971	24,261	11,373	84,943
Other Expenses	41,413	57,307	129,035	1,315,338	830,094	642,773	3,015,960
Total	281,815	975,982	321,258	16,471,525	5,091,142	9,540,103	32,681,825
Equipment & Intangible Assets							
Equipment	23,494	(288)		407,059	85,864		516,129
Total	23,494	(288)		407,059	85,864		516,129
Grants							
From State Sources				1,006,011			1,006,011
From Federal Sources					(5,000)		(5,000)
Total				1,006,011	(5,000)		1,001,011
Benefits & Claims							
From State Sources						5,799,131	5,799,131
Total						5,799,131	5,799,131
Transfers							
Accounting Entity Transfers					13,491,512		13,491,512
Total					13,491,512		13,491,512
Debt Service							
Bonds	669,014				98,355		767,369
Loans						161,597	161,597
Total	669,014				98,355	161,597	928,966
Total Expenditures & Transfers-Out	\$ 974,323	\$ 2,731,431	\$ 939,420	\$ 24,224,370	\$ 22,367,810	\$ 18,398,169	\$ 69,635,523
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund		\$ 261,411	\$ 442,801	\$ 1,076,400	\$ 1,710,322		\$ 3,490,934
Special Revenue Fund	\$ 240,402		496,619	23,147,970	20,433,635	\$ 18,398,169	62,716,795
Debt Service Fund	669,014				223,853		892,867
Internal Service Fund	64,907	2,470,020					2,534,927
Total Expenditures & Transfers-Out	974,323	2,731,431	939,420	24,224,370	22,367,810	18,398,169	69,635,523
Less: Nonbudgeted Expenditures & Transfers-Out	845,692	(36,858)			13,625,327	6,017,802	20,451,963
Prior Year Expenditures & Transfers-Out Adjustments	128,631	10,040	(7,401)	(47,404)	(427,270)	165,158	(178,246)
Actual Budgeted Expenditures & Transfers-Out	0	2,758,249	946,821	24,271,774	9,169,753	12,215,209	49,361,806
Budget Authority	0	2,955,279	1,145,511	62,629,951	13,592,241	18,227,214	98,550,196
Unspent Budget Authority	\$ 0	\$ 197,030	\$ 198,690	\$ 38,358,177	\$ 4,422,488	\$ 6,012,005	\$ 49,188,390
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund		\$ 14,590	\$ 72,862	\$ 142,753	\$ 150,965		\$ 381,170
Special Revenue Fund			125,828	38,215,424	4,271,523	\$ 6,012,005	48,624,780
Internal Service Fund	\$ 182,440						182,440
Unspent Budget Authority	\$ 0	\$ 197,030	\$ 198,690	\$ 38,358,177	\$ 4,422,488	\$ 6,012,005	\$ 49,188,390

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is presented in the notes to the financial schedules beginning on page A-11.

# Montana Department of Environmental Quality

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2002

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1. **Summary of Significant Accounting Policies**

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**Basis of Presentation**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, Special Revenue, and Debt Service). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Internal Service) and Fiduciary (Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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**Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.



## Notes to the Financial Schedules

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The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to generally accepted accounting principles by Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

### **Governmental Fund Category**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** - to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal assistance programs such as the Water Pollution Control and Drinking Water State Revolving Funds, Performance Partnership Grants, Abandoned Mine Lands Reclamation grant, as well as other federal grants and agreements. Department Special Revenue Funds also include Petroleum Tank Release Cleanup, Hazardous Waste -Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), Underground Storage Tank Leak Prevention, Solid Waste Management, Environmental Quality Protection, Air Quality Operating Fees, Public Drinking Water, Montana Pollution Discharge Elimination System (MPDES) Permit Program, Montana Pole Remedial Action, Subdivision Plat Review, Major Facility Siting, Reclamation and Development, Orphan Share Fund, Streamside Tailings Operating Unit (SSTOU) Remedial Action, Junk Vehicle Disposal, trust funds initially funded with Office of Surface Mining grants, and various reclamation bond forfeiture and settlement accounts.

**Debt Service Fund** - to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for the state building and energy programs.

## Notes to the Financial Schedules

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### **Proprietary Fund Category**

**Internal Service Fund** - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department's Internal Service Fund includes indirect charges assessed against all units of the department by the Central Management Program for providing department-wide support functions and services.

### **Fiduciary Fund Category**

**Private-purpose Trust Fund** – to account for activity of all trust arrangements under which principal and income benefit individuals, private organizations, or other governments. This fund did not exist in fiscal year 2001 under the previous fund structure. The department established a private-purpose trust fund in fiscal year 2001-02 to invest a large cash bond, but did not use the fund.

**Agency Fund** – to account for resources held by the state in a custodial capacity. The department agency fund is used primarily to account for cash and certificates of deposit held as security for reclamation under the Hard Rock, Open Cut, and Coal mining programs, and the Junk Vehicle program.

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### **2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2001 and June 30, 2002.

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### **3. Expenditure Program (Sub-class)**

As part of the implementation of a new accounting system in fiscal year 1999-00, state officials determined that a sub-class designation would identify the program to which expenditures should be charged. State officials did not require non-budgeted expenditure transactions to be identified to a sub-class. The program designations in the Schedules of Total Expenditures & Transfers-Out are based on the sub-class designation used when the expenditures

## Notes to the Financial Schedules

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were recorded. The accounting system did not require agencies to code non-budgeted accounts with a sub-class code identifying the expenditure program in which the activity occurred until September 2000. The new edit requires that all expenditure transactions entered through the general ledger include a sub-class value. All non-budgeted activity not identified to a sub-class is included in the column titled Program (Sub-Class) Not Specified on the Schedules of Total Expenditures & Transfers-Out.

### **4. Direct Entries to Fund Balance**

Direct entries to fund balances in the General, Special Revenue, and Internal Service funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

## **Department and Board Response**

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Montana Department of  
**ENVIRONMENTAL QUALITY**

Judy Martz, Governor

P.O. Box 200901 • Helena, MT 59620-0901 • (406) 444-2544 • Website: [www.deq.state.mt.us](http://www.deq.state.mt.us)

December 4, 2002

Mr. Scott A. Seacat  
Legislative Auditor  
Office of the Legislative Auditor  
State Capitol, Room 160  
Helena, Montana 59620-1705

**RECEIVED**

**DEC 04 2002**

**LEGISLATIVE AUDIT DIV.**

Dear Mr. Seacat:

By this letter, I am transmitting the Department of Environmental Quality's formal response to Findings #2 through #6 and the Petroleum Tank Release Compensation Board's formal response to Finding #1 of your Financial and Compliance Audit for the two years ending June 30, 2002.

I would like to personally thank your office and the audit staff assigned to this endeavor for their dedication and professionalism throughout the course of this audit. Their findings and subsequent recommendations have provided a valuable service and insight to department management relative to our fiscal-compliance responsibilities.

I will be available for the December 18 meeting of the Legislative Audit Committee, as will Tim Hornbacher, Chairperson for the Petroleum Tank Release Compensation Board, and appropriate department staff.

Sincerely,

Jan P. Sensibaugh  
Director

cc: Tom Livers, Deputy Director  
Ann Danzer, Chief Financial Officer  
Financial Services

### **Recommendation #1**

We recommend the Petroleum Tank Release Compensation Board approve applications and claims for eligibility in accordance with state law.

***--To be supplied by the Petroleum Tank Release Compensation Board--***

### **Recommendation #2**

We recommend the department:

- A. Improve its cash monitoring and management procedures over the Petroleum Tank Release Cleanup Fund.
- B. Comply with section 75-11-307(5), MCA, by reimbursing approved claims only when the Petroleum Tank Release Cleanup Fund contains sufficient money to pay the claims.

*The department **concurs** with this recommendation.*

- A. *The department has established a cash monitoring system to ensure the Petroleum Tank Release Cleanup Fund doesn't go negative at any time.*
- B. *The Petroleum Tank Release Cleanup Fund is checked to assure it has sufficient, available funds before payments are made. If funds are not sufficient, STIPS are transferred before claims are paid.*

### **Recommendation #3**

We recommend the department:

- A. Implement oversight procedures to facilitate compliance with state law and accounting policy by detecting and correcting accounting errors in a timely manner.
- B. Transfer the investment earnings of over \$71,200 on the cash bond held in the Special Revenue Fund to the General Fund.

*The department **concurs** with this recommendation.*

- A. *The department has placed increased emphasis on program management and accounting staff review of SABHRS reports and timely correction by Financial Services of errors found.*

- B. *The department has transferred the current balance, approximately \$71,500 of investment earnings, from the Special Revenue Fund to the General Fund.*

**Recommendation #4**

We recommend the department:

- A. Comply with state law requiring the collection of a \$2 fee for vehicles submitted by a wrecking facility to the state's disposal program, in accordance with section 75-10-513(1), MCA.
- B. If necessary, seek legislation to amend the law.

*The department **concurs** with this recommendation.*

*The department will work with bill sponsors and groups to seek a legislative change if the Motor Vehicle Recycling and Disposal Act is opened during the 2003 legislative session. If this does not occur, the department will seek legislative changes during the 2005 legislative session.*

**Recommendation #5**

We recommend the department charge its leave costs uniformly and equitably in accordance with federal regulations.

*The department **concurs** with this recommendation.*

*The department will stop using leave pools this fiscal year and will charge leave costs uniformly and equitably in accordance with recently issued state accounting policy.*

**Recommendation #6**

We recommend the department file Federal Cash Transactions Reports and Financial Status Reports as required by federal regulations.

*The department **concurs** with this recommendation.*

*The department deals with three federal agencies: U.S. Department of Energy, U.S. Department of Interior, and U.S. Environmental Protection Agency.*

*The U.S. Department of Energy Federal Cash Transactions Reports have been filed. U.S. Department of Interior's Office of Surface Mining*



*doesn't require Federal Cash Transactions Reports. We have requested an exemption to this reporting requirement from EPA and are awaiting a decision.*

*The Nonpoint Source and Performance Partnership Grant Financial Status Reports have been filed.*

*The Water Pollution Control and Drinking Water State Revolving Funds Financial Status Reports are being reviewed before being filed.*



**Montana**

## **Petroleum Tank Release Compensation Board**

P.O. Box 200902 • Helena, MT 59620-0902 • (406) 444-0935 • Website: [www.deq.state.mt.us/pet/index.asp](http://www.deq.state.mt.us/pet/index.asp)

December 4, 2002

Pearl M. Allen  
Audit Manager  
Legislative Audit Division  
Room 160 State Capitol  
P.O. Box 201705  
Helena, MT 59620-1705

**RECEIVED**

**DEC 04 2002**

**LEGISLATIVE AUDIT DIV.**

Dear Ms. Allen:

Thank you for the opportunity to meet and discuss the findings regarding the Financial-Compliance Audit that was just completed for the department and the Board. I have reviewed the final audit report and am responding to Audit Recommendation # 1 which is specific to the Board.

Recommendation #1 states that you "recommend the Petroleum Tank Release Compensation Board approve application and claims for eligibility in accordance with state law."

In response, let me assure you, it has never been the Board's intention to make any decision not in accordance with law. Rather, our goal is to assure common sense is brought to bear on those situations that reach the Board. In order to assure that that Board decisions are in accordance with the law, I have asked staff to (1) continue to use the law to frame their recommendations to the Board; and (2) annually review the legal standards that must be met in making eligibility decisions and evaluating claims payment recommendations; and have asked the Board's attorney to (3) provide additional guidance in identifying the Board's legal responsibilities to ensure Board decisions are framed within the law. It is also the Board's intention to identify areas where the Board believes provisions in the law need to be changed. When such proposals are identified, the Board will suggest those changes through future legislative processes or rulemaking processes.

I look forward to your full report to the Board at its January 6 meeting and will be available in the interim for any additional questions you or the Legislative Audit Committee may have.

Sincerely,

Tim Hornbacher, Presiding Officer  
Petroleum Tank Release Compensation Board

Cc: Tom Livers  
Sandi Olsen  
Board Members  
Kent Roberts